

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

April 18, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

April 18, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Fulton County Sheriff as of April 18, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,542,843 for the districts for 2005 taxes, retaining commissions of \$98,651 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,525,937 to the districts for 2005 Taxes. Refunds of \$84,711 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of April 18, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$160,034

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2005 Taxes as of April 18, 2006. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid as of April 18, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

March 28, 2008

FULTON COUNTY
ROBERT HOPPER, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 18, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 228,296	\$ 354,252	\$ 977,941	\$ 230,052
Tangible Personal Property	38,402	59,262	178,586	131,460
Intangible Personal Property				33,038
Fire Protection	451			
Increases Through Exonerations	97	144	417	98
Franchise Taxes:				
Billed	77,041	116,565	278,930	
Bank Franchises	17,254			
Penalties	1,560	2,341	6,553	2,106
Adjusted to Sheriff's Receipt	<u>(7)</u>	<u>(2)</u>	<u>(25)</u>	<u>(3)</u>
Gross Chargeable to Sheriff	<u>363,094</u>	<u>532,562</u>	<u>1,442,402</u>	<u>396,751</u>
<u>Credits</u>				
Exonerations	698	1,055	3,160	826
Discounts	4,031	6,244	17,437	5,635
Delinquents:				
Real Estate	10,274	15,429	51,849	10,352
Tangible Personal Property	68	104	378	284
Intangible Personal Property				35
Franchise Taxes:				
Delinquent	5,523	8,389	17,028	
Uncollected	<u>5,091</u>	<u>8,088</u>	<u>19,988</u>	
Total Credits	<u>25,685</u>	<u>39,309</u>	<u>109,840</u>	<u>17,132</u>
Taxes Collected	337,409	493,253	1,332,562	379,619
Less: Commissions (a)	<u>14,627</u>	<u>20,963</u>	<u>46,640</u>	<u>16,421</u>
Taxes Due	322,782	472,290	1,285,922	363,198
Taxes Paid	330,302	497,892	1,334,500	363,243
Refunds (Current and Prior Year)	<u>344</u>	<u>498</u>	<u>1,774</u>	<u>350</u>
		(b)	(c)	
Refunds Due Sheriff as of Completion of Audit	<u>\$ (7,864)</u>	<u>\$ (26,100)</u>	<u>\$ (50,352)</u>	<u>\$ (395)</u>

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPER, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 18, 2006
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	1,200,281
3.5% on	\$	1,332,562

(b) Special Taxing Districts:

Library District	\$	(3,518)
Health District		(2,387)
Extension District		(18,703)
Soil Conservation District		(651)
Mental Health District		(841)

Refunds Due Sheriff	\$	<u>(26,100)</u>
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(c) School Districts

Fulton County School	\$	(42,586)
Fulton Independent School		<u>(7,766)</u>

Refunds Due Sheriff	\$	<u>(50,352)</u>
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FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 18, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 18, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 18, 2006, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$160,034

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2005 through April 18, 2006.

Note 4. Interest Income

The Fulton County Sheriff earned \$1,111 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of March 28, 2008, the Sheriff owed \$22 in interest to the Fulton County School District, \$45 in interest to the Fulton Independent School District, and \$31 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$11,095 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of March 28, 2008, the Sheriff owed \$11,095 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Fulton County Sheriff collected \$630 of advertising costs and \$1,165 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of March 28, 2008, the Sheriff owed \$630 in advertising costs to the county and \$1,165 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$220 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 18, 2006
(Continued)

Note 8. Duplicate Franchise Tax Bills And Receipts

The Sheriff collected \$94,385 in duplicate franchise tax billings during the 2005 tax year. These collections were the result of the following public service companies being erroneously billed a second time due to a turnover in management of the Fulton County Clerk's office.

2003 Duplicate Franchise Bills

Apex Oil Co. Inc.	\$	21.90	
Worldcom Inc. & Subsidiaries		10,435.17	
River Cement Co.		583.03	
Shell Trading		101.37	
NPCR Inc.		585.67	
John W. Stone Oil Distributor		60.06	
Brennan Marine & JF Brennan Co.		89.95	
Teco Barge Line Inc.		4,758.16	
Sea River Maritime Inc.		670.16	
PNG Telecommunications Inc.		38.80	
Canal Barge Co. Inc.		2,426.42	
Ubiquitel Operating Co.		519.12	
Grand Trunk Corp.		58,607.44	
Norfolk Southern Combined RR		72.80	
CK Processing Company		7.60	
Robert B. Miller & Associates Inc.		14.66	
Missouri Barge Line Co. Inc.		130.91	
DPI Teleconnect LLC		75.51	
E I Dupont De Nemours & Company		186.98	
Big River Telephone Co. LLC		85.12	
Total 2003			\$ 79,470.83

2004 Duplicate Franchise Bills

Cinergy Communications Co.	442	
Teco Barge Line	2,820.07	
MCI Worldcom Network Services	11,652.07	
Total 2004		14,914

Grand Total		<u>\$ 94,385.18</u>
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The Fulton County Attorney and the Kentucky Department of Revenue are currently seeking a resolution to the matter.

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COMMENT AND RECOMMENDATION

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENT AND RECOMMENDATION

As of April 18, 2006

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the tax settlement.
- The Sheriff should compare the monthly tax reports for his property and franchise taxes to his computer printout and tax receipts ledger and tax disbursements ledger for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. He could document this by initialing the bank deposit slip, daily collection report, and daily cash sheet.

Sheriff's Response:

Due to finances, we can't hire enough help to comply.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Fulton County Sheriff's Settlement - 2005 Taxes as of April 18, 2006, and have issued our report thereon dated March 28, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2005 Taxes as of April 18, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 28, 2008

